

**CITY OF TORRANCE MUNICIPAL AIRPORT FUND**  
(An Enterprise Fund of the City of Torrance, California)

Basic Financial Statements

Year ended June 30, 2012

(With Independent Auditors' Report Thereon)

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**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

The Honorable City Council  
City of Torrance, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statement of net assets of the City of Torrance Municipal Airport Fund (an Enterprise Fund of the City of Torrance, California), as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These basic financial statements are the responsibility of the City of Torrance's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year comparative information has been derived from the basic financial statements of the City of Torrance Municipal Airport Fund for the year ended June 30, 2011 and, in our report dated December 9, 2011, we expressed an unqualified opinion on those basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the basic financial statements of the City of Torrance Municipal Airport Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the activities of the City of Torrance that are attributable to the transactions of the City of Torrance Municipal Airport Fund. They do not purport to, and do not, present fairly the financial position of the City of Torrance, California, and the changes in financial position and cash flows of its proprietary funds types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Torrance Municipal Airport Fund as of June 30, 2012 and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

Irvine, California  
December 21, 2012

**CITY OF TORRANCE MUNICIPAL AIRPORT FUND**  
(An Enterprise Fund of the City of Torrance, California)

Statement of Net Assets

June 30, 2012

(with comparative totals for prior year)

**Assets**

	<u>2012</u>	<u>2011</u>
Current assets:		
Pooled cash and investments (note 2)	\$ 5,861,707	\$ 5,040,737
Accounts receivable	259,845	253,882
Accrued interest receivable	<u>26,685</u>	<u>19,052</u>
Total current assets	<u>6,148,237</u>	<u>5,313,671</u>
Noncurrent assets:		
Capital assets, net (note 3)	<u>6,926,223</u>	<u>7,300,867</u>
Total noncurrent assets	<u>6,926,223</u>	<u>7,300,867</u>
Total assets	<u>13,074,460</u>	<u>12,614,538</u>

**Liabilities**

Current liabilities:		
Accounts payable	70,142	135,684
Accrued liabilities (note 4)	99,855	111,113
Unearned revenues (note 8)	<u>207,906</u>	<u>130,983</u>
Total current liabilities	<u>377,903</u>	<u>377,780</u>
Total liabilities	<u>377,903</u>	<u>377,780</u>

**Net Assets**

Invested in capital assets, net of related debt	6,926,223	7,300,867
Unrestricted	<u>5,770,334</u>	<u>4,935,891</u>
Total net assets	<u>\$ 12,696,557</u>	<u>\$ 12,236,758</u>

See accompanying notes to the basic financial statements.

**CITY OF TORRANCE MUNICIPAL AIRPORT FUND**

(An Enterprise Fund of the City of Torrance, California)

## Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012

(with comparative totals for prior year)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Charges for services	\$ 11,895,528	\$ 10,895,866
Total operating revenues	<u>11,895,528</u>	<u>10,895,866</u>
Operating expenses:		
Salaries and employee benefits	1,449,149	1,583,428
Services and supplies	289,491	315,606
Other professional services	393,815	344,538
Depreciation and amortization	374,644	270,217
Insurance and claims (note 7)	28,152	21,274
City charges (note 9)	2,656,620	2,649,052
Other	110,963	24,411
Total operating expenses	<u>5,302,834</u>	<u>5,208,526</u>
Operating income	<u>6,592,694</u>	<u>5,687,340</u>
Nonoperating revenues (expenses):		
Interest income	93,601	65,737
Interest expense	(102,000)	(125,550)
Total nonoperating income (expenses), net	<u>(8,399)</u>	<u>(59,813)</u>
Income before transfers to the City of Torrance	6,584,295	5,627,527
Transfers to the City of Torrance (note 9)	<u>(6,124,496)</u>	<u>(5,969,124)</u>
Change in net assets	459,799	(341,597)
Total net assets – July 1, beginning of year	<u>12,236,758</u>	<u>12,578,355</u>
Total net assets – June 30, end of year	<u>\$ 12,696,557</u>	<u>\$ 12,236,758</u>

See accompanying notes to the basic financial statements.

**CITY OF TORRANCE MUNICIPAL AIRPORT FUND**  
(An Enterprise Fund of the City of Torrance, California)

Statement of Cash Flows

Year ended June 30, 2012

(with comparative totals for prior year)

	<u>2012</u>	<u>2011</u>
Cash flow from operating activities:		
Receipts from customers	\$ 11,969,363	\$ 10,807,699
Cash payments to suppliers for goods and services	(3,478,343)	(3,278,947)
Cash payments to employees for services	(1,460,404)	(1,574,084)
Net cash provided by operating activities	<u>7,030,616</u>	<u>5,954,668</u>
Cash flows from noncapital financing activities:		
Cash paid to the City of Torrance	(6,124,496)	(5,969,124)
Net cash used in noncapital financing activities	<u>(6,124,496)</u>	<u>(5,969,124)</u>
Cash flows from capital financing activities:		
Cash paid to purchase/construct capital assets	(69,118)	(328,252)
Long-term obligations - principal & interest	(102,000)	(125,550)
Net cash used in capital financing activities	<u>(171,118)</u>	<u>(453,802)</u>
Cash flows from investing activities:		
Cash received from interest on investments	85,968	93,167
Net increase (decrease) in cash and cash equivalents	820,970	(375,091)
Cash and investments - July 1, beginning of year	<u>5,040,737</u>	<u>5,415,828</u>
Cash and investments - June 30, end of year	<u>\$ 5,861,707</u>	<u>\$ 5,040,737</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,592,694	\$ 5,687,340
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	374,644	270,217
Change in assets and liabilities:		
Accounts receivable	(5,962)	15,029
Accounts payable	698	75,934
Accrued salaries and benefits	(11,255)	9,344
Deposits and guarantees	2,874	(2,884)
Unearned revenues	76,923	(100,312)
Net cash provided by operating activities	<u>\$ 7,030,616</u>	<u>\$ 5,954,668</u>

Noncash capital, financing and investing activities:

There were no significant noncash, noncapital and capital related funding for the year ended June 30, 2012.

See accompanying notes to the basic financial statements.

# CITY OF TORRANCE MUNICIPAL AIRPORT FUND

(An Enterprise Fund of the City of Torrance, California)

## Notes to the Basic Financial Statements

Year ended June 30, 2012

### (1) Summary of Significant Accounting Policies

#### (a) *Reporting Entity*

The Torrance Municipal Airport Fund (the Airport) is an Enterprise Fund of the City of Torrance, California (the City), and was created in 1957 by Article 15, Section 1500 of the City Charter. The Airport operates as a general aviation airport and, for a fee, provides users with runway and aircraft storage facilities. The Airport also leases the surrounding land to commercial enterprises.

Airport operations constitute part of the overall financial reporting entity of the City and have been included as an Enterprise Fund in the City's Comprehensive Annual Financial Report consistent with accounting principles generally accepted in the United States of America.

#### (b) *Basis of Accounting*

The Airport is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In accordance with Government Accounting Standards Board (GASB) Statement No. 20, for Proprietary Fund accounting, the City applies all applicable GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor authoritative Boards, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with the Airport's principal ongoing operations. The principal operating revenues of the Airport are through various leases of certain Airport property and facilities. Operating expenses for the Airport include the cost of operations of the facilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### (c) *Cash and Investments*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and investments purchased with a maturity within 90 days.

#### (d) *Capital Assets*

The Airport's assets are capitalized at historical costs or estimated historical costs. Airport policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful life of the assets as follows:

Land improvements	40 years
Buildings and improvements	40 years
Utility systems	40 years
Furniture and equipment	5 to 15 years
Leasehold improvements	Remaining useful lives

CITY OF TORRANCE MUNICIPAL AIRPORT FUND

(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

**(1) SSAP, (Continued)**

**(e) Pension Plan**

All permanent Airport employees are members of the State of California Public Employee's Retirement System (PERS). The Airport funds substantially all pension costs as determined annually by PERS actuary (see note 6).

All permanent nonsafety employees are also covered under the Federal Insurance Contributions Act (FICA).

**(f) Vacation and Sick Leave**

It is the policy of the Airport to record the costs of vested vacation and sick leave as earned. This amount is included as a liability in the statement of net assets.

**(g) Claims and Judgments**

The Airport is self-insured for state unemployment insurance, general liability claims, long-term disability, and individual workers' compensation claims of Airport employees up to certain limits. The City has established risk financing Internal Service Funds where assets are set aside for claims settlements. The unpaid claims liabilities are included in the City's Self-Insurance Internal Service Fund.

**(h) Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(i) Comparative data**

The Airport Fund Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows show data for the fiscal year ended June 30, 2011 for comparative purposes only.

**(2) Pooled Cash and Investments**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Pooled cash and investments	<u>\$5,861,707</u>
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Total cash and investments	<u>\$5,861,707</u>
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CITY OF TORRANCE MUNICIPAL AIRPORT FUND

(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

**(2) Pooled cash and investments, (Continued)**

Cash and investments as of June 30, 2012 consist of the following:

Equity in City investment pool	<u>\$5,861,707</u>
Total cash and investments	<u>\$5,861,707</u>

***Equity in the Cash and Investment Pool of the City of Torrance***

The Airport has no separate bank accounts or investments other than the Airport's equity in the cash and investment pool managed by the City. The Airport is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council. The Airport has not adopted an investment policy separate from that of the City. The fair value of the Airport's investments in this pool is reported in the accompanying financial statements at amounts based upon the Airport's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Airport manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow liquidity needed for operations.

Information about the Airport's exposure to interest rate risk as a result of equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investments by maturity.

CITY OF TORRANCE MUNICIPAL AIRPORT FUND

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Notes to the Basic Financial Statements

**(3) Capital Assets**

Capital assets, which include land, buildings, utility systems, equipment, and leasehold improvements, consist of the following at June 30, 2012:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Nondepreciable:				
Land	\$ 1,984,114	—	—	1,984,114
Construction in progress	1,037,305	—	—	1,037,305
Total nondepreciable assets	<u>3,021,419</u>	<u>—</u>	<u>—</u>	<u>3,021,419</u>
Depreciable:				
Land improvements	5,926,143	—	—	5,926,143
Utility plant and services	1,278,905	—	—	1,278,905
Buildings and improvements	2,668,296	—	—	2,668,296
Furniture and equipment	1,851,312	—	—	1,851,312
Total depreciable assets	<u>11,724,656</u>	<u>—</u>	<u>—</u>	<u>11,724,656</u>
Less accumulated depreciation for:				
Land improvements	(4,386,504)	(102,108)	—	(4,488,612)
Utility plant and services	(821,489)	(20,997)	—	(842,486)
Buildings and improvements	(1,393,915)	(73,223)	—	(1,467,138)
Furniture and equipment	(843,300)	(178,316)	—	(1,021,616)
Total accumulated depreciation	<u>(7,445,208)</u>	<u>(374,644)</u>	<u>—</u>	<u>(7,819,852)</u>
Total capital assets being depreciated	<u>4,279,448</u>	<u>(374,644)</u>	<u>—</u>	<u>3,904,804</u>
Capital assets, net	<u>\$ 7,300,867</u>	<u>(374,644)</u>	<u>—</u>	<u>6,926,223</u>

**(4) Accrued Liabilities**

Accrued liabilities include compensated absences and it is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the Airport basic financial statements. As of June 30, 2012 the compensated absences portion of accrued liabilities was \$99,826.

**(5) Employee Benefits**

The City has an approved deferred compensation plan under which employees may elect to defer a portion of their annual compensation by direct deposit to the plan. Subject to Internal Revenue Service regulations,

## CITY OF TORRANCE MUNICIPAL AIRPORT FUND

(An Enterprise Fund of the City of Torrance, California)

### Notes to the Basic Financial Statements

#### (5) *Employee benefits, (Continued)*

such compensation is not subject to income taxes to the employee until withdrawal at time of retirement, termination or on an extended basis at the election of the employee under certain options of the plan.

Federal legislation, approved a number of years ago, requires that Section 457 plan assets be held in trust for employees. As of January 1, 1999, the City implemented this requirement by transferring all Section 457 plan assets to a trustee. As such, Section 457 plan assets are no longer legally the property of the City and are no longer subject to claims of the City's general creditors.

#### (6) **Pension Plan**

Full-time Airport employees participate with other City employees in the Public Employees' Retirement System (PERS) of the State of California. Contributions are made by both the Airport and its employees. The Airport's contribution represents a pro rata share of the City's contribution, which is based on the system's determination as of July 1 of the current fiscal year. Total pension expense allocated to the Airport by the City for 2012 amounted to \$120,472.

PERS does not provide data to participating organizations in such a manner as to facilitate separate disclosure for the Airport of the actuarially computed present value of vested and non-vested accumulated plan benefits, the plan's net assets available for benefits, assumed rates of return used or the actuarially computed value of vested benefits over the related pension fund assets. Additional information regarding the City's participation in PERS can be found in the City's Comprehensive Annual Financial Report.

#### (7) **Risk Management**

The City purchases first dollar airport owners and operators general liability insurance with limits of \$20,000,000 per occurrence. Airport motor vehicles are covered under the City's self-insurance program. Airport employees are also covered under the City's self-insured workers' compensation program for risks up to \$2,000,000 per occurrence. Excess coverage is in place for amounts above the \$2,000,000 self-insured retention up to State of California statutory limits. Information concerning the City's self-insurance program can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2012.

Insurance expense amounted to \$28,152 for the year ended June 30, 2012.

#### (8) **Unearned Revenues**

The Airport rents received in June for July will be recognized in July. The amount of unearned revenues to the Airport for the year ended June 30, 2012 was \$207,906.

#### (9) **Transactions with Related Parties**

The City allocates certain administrative and overhead costs to the Airport based on a formal indirect cost allocation plan approved by the City's cognizant federal agency. The charge is based upon a fixed rate applied to the Airport's direct salaries and wages; such charges amounted to \$283,172 for the year ended June 30, 2012. Other flat rate charges total \$124,948 for the year ended June 30, 2012.

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(An Enterprise Fund of the City of Torrance, California)

Notes to the Basic Financial Statements

**(9) *Transactions with related parties, (Continued)***

In addition, the City charged the Airport \$300,000 in lieu of property taxes for the year ended June 30, 2012, and \$1,600,000 for leases and rentals for the year ended June 30, 2012. Such amounts are included in City charges in the accompanying statements of revenues, expenses, and changes in retained earnings. (See notes 5, 6, and 7 for additional transactions with the City).

The Airport also makes monthly payments to the City for repayment of long term debt for the General Aviation Center and Hangars which totaled \$348,500 for the year ended June 30, 2012.

In fiscal year ended June 30, 2012, the following activities took place for transfers out to the City:

- Transfers to the General Fund in the amount of \$14,256 for equipment replacement;
- Transfers to the General Fund in the amount of \$6,077,985 to fund general fund operations;
- Transfers to the Street Lighting Fund in the amount of \$25,763 for Airport's portion of the street light assessment; and
- Transfers to the Sanitation Fund in the amount of \$6,492 for Airport's portion of refuse hauling costs.

